

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Village of Grosse Pointe Shores	County Macomb/Wayne
Audit Date March 31, 2006	Opinion Date May 31, 2006	Date Accountant Report Submitted To State: August 8, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address River Ridge Corporate Center 19176 Hall Road, Suite 300		City Clinton Township	State MI
Accountant Signature 		ZIP 48038	

Village of Grosse Pointe Shores, Michigan

**Financial Report
with Supplemental Information
March 31, 2006**

Village of Grosse Pointe Shores, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds - Enterprise Funds:	
Statement of Net Assets	14
Statement of Revenue, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Net Assets	17
Statement of Changes in Net Assets	18
Notes to Financial Statements	19-39
Required Supplemental Information	40
Budgetary Comparison Schedule - General Fund	41
Budgetary Comparison Schedule - Major Special Revenue Funds	42-43
General and Public Safety Retirement System - Pension System Schedule of Funding Progress	44
Note to Required Supplemental Information	45-46

Village of Grosse Pointe Shores, Michigan

Contents (Continued)

Other Supplemental Information	47
Nonmajor Governmental Funds:	
Combining Balance Sheet	48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49
Fiduciary Funds - Trust Funds:	
Combining Statement of Net Assets	50
Combining Statement of Changes in Net Assets	51



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Independent Auditor's Report

To the Village Council
Village of Grosse Pointe Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Grosse Pointe Shores, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, Michigan as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



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To the Village Council
Village of Grosse Pointe Shores, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Grosse Pointe Shores, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 31, 2006

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Grosse Pointe Shores, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- State-shared revenue, our second largest revenue source, was reduced slightly by the State of Michigan.
- Total fund balance related to the Village's General Fund decreased by approximately \$294,000. The Village anticipated a decrease of approximately \$271,000 as is evidenced by the final amended budget. There were notable increases in legal fees and repairs and maintenance expenditures for the park.
- Total net assets related to the Village's governmental activities decreased by approximately \$447,000. This was primarily a result of increased spending in the general government, public safety, and parks and recreation departments for planned projects and services. In addition, the transfer to the Water and Sewer Fund for payment of the Unlimited Tax Obligation Bonds increased in the current year.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2006 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 1,137	\$ 1,399	\$ 1,042	\$ 896	\$ 2,179	\$ 2,295
Noncurrent assets	<u>6,074</u>	<u>6,497</u>	<u>11,848</u>	<u>12,420</u>	<u>17,922</u>	<u>18,917</u>
Total assets	7,211	7,896	12,890	13,316	20,101	21,212
Liabilities						
Current liabilities	358	354	315	324	673	678
Long-term liabilities	<u>2,350</u>	<u>2,591</u>	<u>3,881</u>	<u>3,959</u>	<u>6,231</u>	<u>6,550</u>
Total liabilities	<u>2,708</u>	<u>2,945</u>	<u>4,196</u>	<u>4,283</u>	<u>6,904</u>	<u>7,228</u>
Net Assets						
Invested in capital assets - Net of related debt	4,378	4,595	7,689	8,241	12,067	12,836
Restricted	236	197	-	-	236	197
Unrestricted (deficit)	<u>(111)</u>	<u>159</u>	<u>1,005</u>	<u>792</u>	<u>894</u>	<u>951</u>
Total net assets	<u>\$ 4,503</u>	<u>\$ 4,951</u>	<u>\$ 8,694</u>	<u>\$ 9,033</u>	<u>\$ 13,197</u>	<u>\$ 13,984</u>

The Village's 2006 combined net assets decreased 5.6 percent from the previous year (from approximately 13.9 million in 2005 to \$13.1 million in 2006). A review of the 2006 governmental activities net assets, separate from the business-type activities, shows a decrease from the previous year of approximately \$449,000, or 9.1 percent. This decrease is largely due to increased spending in the general government, public safety, and parks and recreation departments for planned projects and services. In addition, the transfer to the Water and Sewer Fund for payment of the Unlimited Tax Obligation Bonds increased in the current year. The 2006 business-type activities net assets experienced a \$339,000 decrease, or 3.8 percent. This decrease is largely due to an increase in expenditures to repair and maintain the infrastructure of the water and sewer system.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, decreased by approximately \$271,000 in the governmental activities. The unrestricted net asset deficit balance at March 31, 2006 was approximately \$112,000. This negative unrestricted net asset balance is primarily a result of the use of fund balance for budgeted expenditures, without consideration of legal restrictions and investments in capital assets net of related debt.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended March 31, 2005 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 303	\$ 350	\$ 1,444	\$ 1,304	\$ 1,747	\$ 1,654
Operating grants and contributions	170					
General revenue:						
Property taxes	4,659	4,372	-	-	4,659	4,372
State-shared revenue	236	413	-	-	236	413
Unrestricted investment earnings	109	49	15	7	124	56
Miscellaneous	286	323	-	14	286	337
Transfers	(318)	(193)	318	193	-	-
Total revenue	5,445	5,314	1,777	1,518	7,052	6,832
Program Expenses						
General government	1,518	1,431	-	-	1,518	1,431
Public safety	2,428	2,321	-	-	2,428	2,321
Public works	1,273	1,294	-	-	1,273	1,294
Recreation and culture	606	517	-	-	606	517
Interest on long-term debt	67	11	-	-	67	11
Water and sewer	-	-	1,864	1,573	1,864	1,573
Marina	-	-	252	194	252	194
Total program expenses	5,892	5,574	2,116	1,767	8,008	7,341
Change in Net Assets	\$ (447)	\$ (260)	\$ (339)	\$ (249)	\$ (956)	\$ (509)

Governmental Activities

The Village's governmental revenue, excluding transfers, increased by approximately \$256,000 or 4.6 percent during 2006. This is primarily a result of increased property tax revenue for the debt service levy.

The Village's governmental expenditures increased by approximately \$318,000, or 5.7 percent during 2006. This is primarily a result of increased spending in the general government and public safety departments for planned projects and services.

Business-type Activities

The Village's business-type activities consist of the water, sewer, and marina funds. The Village provides water to residents, which is purchased from the City of Detroit Water System. Sewage treatment is provided through an agreement with Wayne County. While 2006 program revenue is up slightly from the previous year, expenditures increased by approximately \$349,000, or 19.8 percent during 2006. This is primarily a result of water and sewer rehabilitation projects to repair and improve the water and sewer system.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The Village's Funds

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major governmental funds for 2006 include the General Fund and the Major and Local Street Funds. Both of the Village's Enterprise Funds are presented as major funds.

The General Fund pays for most of the Village's governmental services. The most significant are police and fire, which incurred expenses of approximately \$2,326,000 in 2006.

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was to decrease the estimated revenue for property taxes by approximately \$104,000. This was due to several adjustments to the taxable valuation of various properties. While modest amendments were also made to department expenditures during the year, total General Fund expenditures exceeded the final amended budget by approximately \$79,000. This variance represents a 1.4 percent increase over the final amended budget.

Capital Asset and Debt Administration

Capital Assets

At the end of 2006, the Village had approximately \$17.2 million invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the Village has invested significantly in roads and other infrastructure within the Village.

Long-term Debt

The Village's total bonded indebtedness as of March 31, 2006 is \$5.8 million. Of this amount, \$5.5 million is general obligation bonds. In addition, the Village has contractual obligations totaling \$360,000. This amount represents the Village's portion of debt related to the Mack Avenue Water Main Project.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for next year calls for a minimal increase on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, however, the Village needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than by inflation, before considering new property additions.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village offices.

Village of Grosse Pointe Shores, Michigan

Statement of Net Assets March 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 1,220,168	\$ 448,998	\$ 1,669,166
Receivables:			
Taxes	116,782	-	116,782
Customers	-	121,791	121,791
Other governmental units	96,677	-	96,677
Other	76,084	-	76,084
Inventories	11,813	2,280	14,093
Prepaid costs and other assets	30,084	54,135	84,219
Internal balances	(415,160)	415,160	-
Restricted assets (Note 9)	628,687	94,485	723,172
Investment in joint venture (Note 13)	14,685	-	14,685
Capital assets (Note 5):			
Nondepreciable	1,393,668	1,081,896	2,475,564
Depreciable - Net	4,037,111	10,672,114	14,709,225
Total assets	7,210,599	12,890,859	20,101,458
Liabilities			
Accounts payable	81,146	-	81,146
Accrued and other liabilities	70,724	2,611	73,335
Deferred revenue (Note 4)	147,727	34,368	182,095
Noncurrent liabilities (Note 8):			
Due within one year	58,162	278,250	336,412
Due in more than one year	2,349,795	3,880,856	6,230,651
Total liabilities	2,707,554	4,196,085	6,903,639
Net Assets			
Invested in capital assets - Net of related debt	4,378,344	7,689,389	12,067,733
Restricted:			
Streets and highways	94,135	-	94,135
Sanitation	142,116	-	142,116
Unrestricted (deficit)	(111,550)	1,005,385	893,835
Total net assets	\$ 4,503,045	\$ 8,694,774	\$ 13,197,819

Village of Grosse Pointe Shores, Michigan

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 1,518,026	\$ 229,744	\$ -
Public safety	2,428,202	73,591	-
Public works	1,272,613	-	170,082
Recreation and culture	605,897	-	-
Interest on long-term debt	66,742	-	-
Total governmental activities	5,891,480	303,335	170,082
Business-type activities:			
Water and sewer	1,863,830	1,260,868	-
Marina	251,690	183,480	-
Total business-type activities	2,115,520	1,444,348	-
Total primary government	<u>\$ 8,007,000</u>	<u>\$ 1,747,683</u>	<u>\$ 170,082</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended March 31, 2006

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (1,288,282)	\$ -	\$ (1,288,282)
(2,354,611)	-	(2,354,611)
(1,102,531)	-	(1,102,531)
(605,897)	-	(605,897)
(66,742)	-	(66,742)
(5,418,063)	-	(5,418,063)
-	(602,962)	(602,962)
-	(68,210)	(68,210)
-	(671,172)	(671,172)
(5,418,063)	(671,172)	(6,089,235)
4,658,954	-	4,658,954
235,116	-	235,116
108,955	14,776	123,731
285,967	101	286,068
(318,386)	318,386	-
4,970,606	333,263	5,303,869
(447,457)	(337,909)	(785,366)
4,950,502	9,032,683	13,983,185
<u>\$ 4,503,045</u>	<u>\$ 8,694,774</u>	<u>\$ 13,197,819</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Balance Sheet March 31, 2006

	Major Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 942,004	\$ 203,767	\$ 74,397	\$ -	\$ 1,220,168
Receivables:					
Delinquent taxes	116,782	-	-	-	116,782
Other	24,579	-	-	-	24,579
Due from other governmental units	65,495	21,568	9,614	-	96,677
Due from other funds (Note 6)	15,211	-	-	200,000	215,211
Inventories	11,813	-	-	-	11,813
Prepaid costs and other assets	30,084	-	-	-	30,084
Restricted assets (Note 9)	164,699	260,755	203,233	-	628,687
Total assets	<u>\$ 1,370,667</u>	<u>\$ 486,090</u>	<u>\$ 287,244</u>	<u>\$ 200,000</u>	<u>\$ 2,344,001</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 81,146	\$ -	\$ -	\$ -	\$ 81,146
Accrued and other liabilities	70,724	-	-	-	70,724
Due to other funds (Note 6)	415,160	100,000	115,211	-	630,371
Deferred revenue (Note 4)	147,727	-	-	-	147,727
Total liabilities	714,757	100,000	115,211	-	929,968
Fund Balances					
Reserved for:					
Sanitation expenditures	142,116	-	-	-	142,116
Prepaid expenditures	30,084	-	-	-	30,084
Inventory	11,813	-	-	-	11,813
Unreserved, reported in:					
General Fund	471,897	-	-	-	471,897
Special Revenue Funds	-	386,090	172,033	200,000	758,123
Total fund balances	655,910	386,090	172,033	200,000	1,414,033
Total liabilities and fund balances	<u>\$ 1,370,667</u>	<u>\$ 486,090</u>	<u>\$ 287,244</u>	<u>\$ 200,000</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	5,430,779
Revenue related to receivables is recorded in the statement of net assets at the time it is earned without regard to timeliness of remittance	51,505
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Notes and bonds payable	(1,681,122)
Compensated absences	(726,835)
The investment in joint venture is not recorded in the funds	14,685
Net assets of governmental activities	<u>\$ 4,503,045</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2006

	<u>Major Special Revenue Funds</u>			Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund		
Revenue					
Property taxes	\$ 4,243,956	\$ -	\$ -	\$ 414,998	\$ 4,658,954
State sources	233,539	117,638	52,444	-	403,621
Licenses and permits	40,484	-	-	-	40,484
Fines and forfeitures	209,544	-	-	-	209,544
Ambulance fees	33,107	-	-	-	33,107
Building rent	20,200	-	-	-	20,200
Interest	92,286	11,413	5,256	-	108,955
Other	176,674	-	-	13,453	190,127
Total revenue	5,049,790	129,051	57,700	428,451	5,664,992
Expenditures					
General government	1,675,071	-	-	-	1,675,071
Public safety	2,326,138	-	-	13,453	2,339,591
Public works	803,329	302,035	546,693	-	1,652,057
Recreation and culture	564,611	-	-	-	564,611
Debt service	-	-	-	96,612	96,612
Total expenditures	5,369,149	302,035	546,693	110,065	6,327,942
Excess of Revenue Over (Under) Expenditures	(319,359)	(172,984)	(488,993)	318,386	(662,950)
Other Financing Sources (Uses)					
Transfers in	25,000	-	-	-	25,000
Transfers out	-	-	-	(318,386)	(318,386)
Total other financing sources (uses)	25,000	-	-	(318,386)	(293,386)
Net Change in Fund Balances	(294,359)	(172,984)	(488,993)	-	(956,336)
Fund Balances - Beginning of year, as restated	950,269	559,074	661,026	200,000	2,370,369
Fund Balances - End of year	<u>\$ 655,910</u>	<u>\$ 386,090</u>	<u>\$ 172,033</u>	<u>\$ 200,000</u>	<u>\$ 1,414,033</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (956,336)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	811,167
Depreciation expense	(281,050)

In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold (56,176)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds 1,577

Return on investment in joint venture is not recorded in the funds (6,240)

Accrued interest is recorded on debt when incurred in the statement of activities 29,870

Change in net pension obligation and accumulated employee sick and vacation pay are recorded when earned in the statement of activities 9,731

Change in Net Assets of Governmental Activities \$ (447,457)

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Net Assets March 31, 2006

	Marina	Water and Sewer	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 444,042	\$ 4,956	448,998
Customer receivables	-	121,791	121,791
Due from other funds (Note 6)	215,160	200,000	415,160
Inventories	-	2,280	2,280
Prepaid costs and other assets	-	54,135	54,135
Total current assets	659,202	383,162	1,042,364
Noncurrent assets:			
Restricted assets (Note 9)	-	94,485	94,485
Capital assets (Note 5)	874,055	10,879,955	11,754,010
Total noncurrent assets	874,055	10,974,440	11,848,495
Total assets	1,533,257	11,357,602	12,890,859
Liabilities			
Current liabilities:			
Deferred revenue (Note 4)	34,368	-	34,368
Other liabilities	-	2,611	2,611
Current portion of long-term debt (Note 8)	-	278,250	278,250
Total current liabilities	34,368	280,861	315,229
Long-term debt - Net of current portion (Note 8)	-	3,880,856	3,880,856
Total liabilities	34,368	4,161,717	4,196,085
Net Assets			
Investment in capital assets - Net of related debt	874,055	6,815,334	7,689,389
Unrestricted	624,834	380,551	1,005,385
Total net assets	<u>\$ 1,498,889</u>	<u>\$ 7,195,885</u>	<u>\$ 8,694,774</u>

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2006

	Marina	Water and Sewer	Total
Operating Revenue			
Customer billings	\$ -	\$ 1,260,869	\$ 1,260,869
Other charges for services	183,480	-	183,480
Total operating revenue	183,480	1,260,869	1,444,349
Operating Expenses			
Water supply and sewage disposal	-	801,558	801,558
Repairs and maintenance	48,171	326,451	374,622
General and administrative	75,689	147,805	223,494
Depreciation	102,830	444,851	547,681
Total operating expenses	226,690	1,720,665	1,947,355
Operating Loss	(43,210)	(459,796)	(503,006)
Nonoperating Revenue (Expenses)			
Interest income	14,776	-	14,776
Interest expense	-	(142,940)	(142,940)
Other	100	(225)	(125)
Total nonoperating revenue (expenses)	14,876	(143,165)	(128,289)
Loss - Before transfers	(28,334)	(602,961)	(631,295)
Other Financing Sources (Uses)			
Transfers in	-	318,386	318,386
Transfers out	(25,000)	-	(25,000)
Total other financing sources (uses)	(25,000)	318,386	293,386
Change in Net Assets	(53,334)	(284,575)	(337,909)
Net Assets - Beginning of year	1,552,223	7,480,460	9,032,683
Net Assets - End of year	<u>\$ 1,498,889</u>	<u>\$ 7,195,885</u>	<u>\$ 8,694,774</u>

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Cash Flows Year Ended March 31, 2006

	Marina	Water and Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 183,480	\$ 1,273,183	\$ 1,456,663
Payments to suppliers	(158,728)	(1,291,392)	(1,450,120)
Net cash provided by (used in) operating activities	24,752	(18,209)	6,543
Cash Flows from Capital and Related Financing Activities			
Transfers (to) from other funds	(25,000)	318,386	293,386
Purchase of capital assets	-	(1,326,423)	(1,326,423)
Principal and interest paid on capital debt	-	(375,886)	(375,886)
Net cash used in capital and related financing activities	(25,000)	(1,383,923)	(1,408,923)
Cash Flows from Investing Activities			
Interest received on investments	14,776	-	14,776
Other receipts	100	-	100
Net cash provided by investing activities	14,876	-	14,876
Net Increase (Decrease) in Cash and Cash Equivalents	14,628	(1,402,132)	(1,387,504)
Cash and Cash Equivalents - Beginning of year	429,414	1,501,574	1,930,988
Cash and Cash Equivalents - End of year	<u>\$ 444,042</u>	<u>\$ 99,442</u>	<u>\$ 543,484</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 444,042	\$ 4,956	\$ 448,998
Restricted assets (Note 9)	-	94,485	94,485
Total cash and cash equivalents	<u>\$ 444,042</u>	<u>\$ 99,441</u>	<u>\$ 543,483</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (43,210)	\$ (459,796)	\$ (503,006)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	102,830	444,851	547,681
Changes in assets and liabilities:			
Receivables	-	12,314	12,314
Due from other funds	8,505	-	8,505
Other assets	-	(4,468)	(4,468)
Deferred revenue	(43,373)	-	(43,373)
Other liabilities	-	(11,110)	(11,110)
Net cash provided by (used in) operating activities	<u>\$ 24,752</u>	<u>\$ (18,209)</u>	<u>\$ 6,543</u>

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2006, there were no noncash investing, capital, or financing activities.

Village of Grosse Pointe Shores, Michigan

Fiduciary Funds Statement of Net Assets March 31, 2006

	Pension and Other Post- employment Benefit Trust Funds	Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 1,232,215	\$ 153,454
Investments (Note 3):		
U.S. government securities	2,108,788	-
Common and preferred stock	10,179,758	-
Corporate bonds	3,127,474	-
Accrued interest and dividends	97,480	-
Due from other funds	18,764	-
Prepaid expenditures	19,672	-
Total assets	16,784,151	<u>\$ 153,454</u>
Liabilities - Other liabilities	<u>-</u>	<u>\$ 153,454</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 16,784,151</u>	

Village of Grosse Pointe Shores, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended March 31, 2006

	Pension and Other Post- employment Benefit Trust Funds
Additions	
Investment income:	
Interest, dividends, and net realized income on investments	\$ 701,411
Net increase in fair value of investments	67,502
Less investment expenses	<u>(155,898)</u>
Net investment income	613,015
Contributions:	
Employer	642,740
Employee	<u>147,355</u>
Total contributions	<u>790,095</u>
Total additions	1,403,110
Deductions	
Pension benefit payments	760,467
Health care benefit payments	<u>262,552</u>
Total deductions	<u>1,023,019</u>
Change in Net Assets Held in Trust	380,091
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>16,404,060</u>
End of year	<u><u>\$ 16,784,151</u></u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Grosse Pointe Shores, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Grosse Pointe Shores, Michigan:

Reporting Entity

The Village of Grosse Pointe Shores is governed by an elected seven-member council. The council includes the president, president pro-tem, and five trustees.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds have been blended into the Village's financial statements. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds are governed by a five-member pension board that includes the Village Council president and two individuals chosen by the Village Council. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds are reported as if they were part of the primary government because of the fiduciary responsibility that the Village retains relative to the operations of the funds.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund accounts for maintenance and improvement activities for streets designated as "major" in the Village. Funding is provided primarily through state-shared gas and weight tax.

Local Street Fund - The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" in the Village. Funding is provided primarily through state-shared gas and weight tax.

The Village reports the following major proprietary funds:

Marina Fund - The Marina Fund accounts for the activities of the Village's marina, which is primarily funded through the rental of boat wells.

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

Additionally, the Village reports the following fund types:

Pension and Other Employee Benefits Trust Funds - The Pension and Other Employee Benefits Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Village in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include intergovernmental revenue, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Village.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities and Enterprise Funds.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include charges for services to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Village's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended March 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Village totaled \$328,132,666, on which ad valorem taxes levied consisted of 10.7579 mills for operating purposes, 1.46 mills for refuse services, .82 mills for the retirement system, and 1.2621 mills for debt service. This resulted in approximately \$3,530,000 for operating, \$479,000 for refuse services, \$269,000 for the retirement system, and \$414,000 for debt service. Amounts for the levies are recognized in the General Fund and the Debt Service Fund as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Vehicles	8 to 15 years
Machinery and equipment	5 to 20 years
Buildings	50 years
Land improvements	20 years
Infrastructure	20 to 50 years

Compensated Absences (Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick pay benefits. A liability is reported when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note I - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Correction of a Prior Period - The fund balance of the governmental funds as of April 1, 2005 has been restated to correct an error in the fund allocation of debt proceeds. There is no impact on net assets in the statement of governmental activities.

	Major Street Fund	Local Street Fund
Governmental fund balance - April 1, 2005, as previously reported	\$ 659,074	\$ 761,026
Transfer of debt proceeds to a business-type activity	<u>(100,000)</u>	<u>(100,000)</u>
Governmental fund balance - April 1, 2005, as restated	<u>\$ 559,074</u>	<u>\$ 661,026</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999 (the "Act"), the Village is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the Village adopted this accounting treatment effective January 1, 2000. A summary of the activity is presented below:

Accumulated shortfall - April 1, 2005	\$ (57,892)
2005-2006 building department activity:	
Current year revenue	39,472
Current year expenditures	<u>83,516</u>
Excess of expenditures over revenue	<u>(44,044)</u>
Accumulated shortfall - March 31, 2006	<u><u>\$ (101,936)</u></u>

Budgetary Information

The Village is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The Village adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The Village follows these procedures in establishing the budget reflected in the financial statements:

1. The Village superintendent prepares and submits to the Village Council a complete itemized proposed budget in February for the following fiscal year.
2. A public hearing on the budget shall be held before its final adoption in March, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof.
3. The Council shall then adopt the budget for the ensuing fiscal year.

The annual budget is prepared by the Village superintendent and adopted by the Village Council; subsequent amendments are approved by the Village Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are as amended by the Village Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplementary information. A comparison of actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the Village Council is available at the Village offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 3 - Deposits and Investments (Continued)

The Pension Trust Fund and the Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) as listed above. The Village's deposits and investment policies are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had approximately \$445,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The investment policies for the pension and other postemployment benefit trust funds specify that each investment manager shall maintain a weighted average duration of plus or minus 20 percent of the Lehman Bros. Intermediate Government Index. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Investment Maturity		
		0-5 Years	5-15 Years	> 15 Years
Corporate bonds	\$ 3,031,268	\$ 1,936,526	\$ 1,094,742	\$ -
U.S. government obligations	557,188	451,772	104,910	506
U.S. federal agencies	1,551,600	393,047	1,158,553	-
Total	<u>\$ 5,140,056</u>	<u>\$ 2,781,345</u>	<u>\$ 2,358,205</u>	<u>\$ 506</u>

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The investment policy for the pension and other postemployment benefit trust funds states that the weighted average credit quality of fixed income securities shall be A rated by Moody's and Standard and Poors; no more than 20 percent of the fixed income portfolio of a manager should be invested in securities carrying less than a Baa/Bbb rating either by Moody's and Standard and Poors; split rates securities will be governed by the lower rating; and commercial paper must be rated either A1 or P1. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Pooled investments	\$ 1,154,792	Not rated	N/A
Pooled investments	2,075,440	AAA	Standard and Poors
Corporate bonds	192,442	AAA	Standard and Poors
Corporate bonds	140,390	AA	Standard and Poors
Corporate bonds	62,835	AA-	Standard and Poors
Corporate bonds	334,872	A+	Standard and Poors
Corporate bonds	1,004,709	A	Standard and Poors
Corporate bonds	327,879	A-	Standard and Poors
Corporate bonds	51,502	BBB+	Standard and Poors
Corporate bonds	101,970	BBB	Standard and Poors
Corporate bonds	147,896	BB+	Standard and Poors
Corporate bonds	242,633	BB	Standard and Poors
Corporate bonds	421,142	BB-	Standard and Poors
U.S. government obligations	181,064	Not rated	N/A
U.S. government obligations	376,124	AAA	Standard and Poors
U.S. federal agencies	1,314,196	AAA	Standard and Poors
U.S. federal agencies	237,404	A	Standard and Poors

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Activities		Business-type
	Unearned	Unavailable	Activities Unearned
Property taxes	\$ -	\$ 130,846	\$ -
Advance payments - Boat well rentals	-	-	34,368
Other	16,881	-	-
Total	<u>\$ 16,881</u>	<u>\$ 130,846</u>	<u>\$ 34,368</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 880,608	\$ -	\$ -	\$ 880,608
Construction in progress	-	513,060	-	513,060
Subtotal	880,608	513,060	-	1,393,668
Capital assets being depreciated:				
Vehicles	1,246,863	131,431	121,566	1,256,728
Machinery and equipment	424,256	-	-	424,256
Buildings	1,271,100	-	-	1,271,100
Land improvements	648,970	-	-	648,970
Infrastructure	7,348,881	166,676	-	7,515,557
Subtotal	10,940,070	298,107	121,566	11,116,611
Accumulated depreciation:				
Vehicles	1,006,140	43,991	65,390	984,741
Machinery and equipment	238,501	28,497	-	266,998
Buildings	683,166	21,092	-	704,258
Land improvements	422,603	32,448	-	455,051
Infrastructure	4,513,430	155,022	-	4,668,452
Subtotal	6,863,840	281,050	65,390	7,079,500
Net capital assets being depreciated	4,076,230	17,057	56,176	4,037,111
Net capital assets	<u>\$ 4,956,838</u>	<u>\$ 530,117</u>	<u>\$ 56,176</u>	<u>\$ 5,430,779</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
Capital assets not being depreciated:				
Land	\$ 5,053	\$ -	\$ -	\$ 5,053
Construction in progress	38,817	1,038,026	-	1,076,843
Subtotal	43,870	1,038,026	-	1,081,896
Capital assets being depreciated:				
Vehicles	28,600	-	-	28,600
Machinery and equipment	18,700	-	-	18,700
Buildings	234,500	-	-	234,500
Infrastructure	21,909,961	288,397	-	22,198,358
Marina	5,870,204	-	-	5,870,204
Subtotal	28,061,965	288,397	-	28,350,362
Accumulated depreciation:				
Vehicles	596	3,575	-	4,171
Machinery and equipment	18,700	-	-	18,700
Buildings	234,500	-	-	234,500
Infrastructure	11,983,452	441,276	-	12,424,728
Marina	4,893,319	102,830	-	4,996,149
Subtotal	17,130,567	547,681	-	17,678,248
Net capital assets being depreciated	10,931,398	(259,284)	-	10,672,114
Net capital assets	<u>\$ 10,975,268</u>	<u>\$ 778,742</u>	<u>\$ -</u>	<u>\$ 11,754,010</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 34,107
Public safety	23,119
Public works	191,232
Recreation and culture	<u>32,592</u>

Total governmental activities	<u>\$ 281,050</u>
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Business-type activities:

Water and sewer	\$ 444,851
Marina	<u>102,830</u>

Total business-type activities	<u>\$ 547,681</u>
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Construction Commitments - The Village has active construction projects at year end which include various infrastructure rehabilitation projects. At year end, the Village's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Infrastructure rehabilitation	\$ 937,636	\$ 68,710

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
Nonmajor governmental fund	General Fund	\$ 200,000
Water and Sewer Fund	Major Street Fund	100,000
Water and Sewer Fund	Local Street Fund	100,000
Marina Fund	General Fund	215,160
General Fund	Local Street Fund	15,211
Total		<u>\$ 630,371</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Fund Transferred From	Fund Transferred To	Amount
Nonmajor governmental fund	Water and Sewer Fund	\$ 318,386
Marina Fund	General Fund	25,000

Transfers provided funding for capital acquisitions and debt service.

Note 7 - Shared Expenses and Elected Officials

The Village received the following payments from the Township of Grosse Pointe for shared expenses for the year ended March 31, 2006:

Rent	\$ 20,000
Insurance	20,000
Administrative services	138,000

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 8 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Intergovernmental contractual agreements are also general obligations of the government. Other long-term obligations include compensated absences and net pension obligations.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Transfers *	Ending Balance	Due Within One Year
Governmental Activities								
General obligation bonds:								
Unlimited Tax Bonds, Series 2004 -								
Net of unamortized discount:								
Amount of issue: \$1,700,000	2.50% -	\$36,750-	\$ 1,881,122	\$ -	\$ -	\$ (200,000)	\$ 1,681,122	\$ 36,750
Maturing through 2025	4.5%	154,350						
Other long-term obligations:								
Net pension obligation			63,778	-	63,778	-	-	-
Long-term portion of accrued sick pay liability			672,788	54,047	-	-	726,835	21,412
Total governmental activities			\$ 2,617,688	\$ 54,047	\$ 63,778	\$ (200,000)	\$ 2,407,957	\$ 58,162
Business-type Activities								
General obligation bonds:								
Unlimited Tax Bonds, Series 2003:								
Amount of issue: \$2,250,000	1.15%-	\$125,000-	\$ 2,165,000	\$ -	\$ 150,000	\$ -	\$ 2,015,000	\$ 170,000
Maturing through 2016	3.80%	235,000						
Unlimited Tax Bonds, Series 2004 -								
Net of unamortized discount:								
Amount of issue: \$1,800,000	2.50% -	38,250-	1,584,106	-	-	200,000	1,784,106	38,250
Maturing through 2025	4.5%	170,650						
Intergovernmental contractual agreement:								
Mack Avenue Water Main:								
Amount of issue: \$500,000		10,000-	430,000	-	70,000	-	360,000	70,000
Maturing through 2012	0.00%	70,000						
Total business-type activities			\$ 4,179,106	\$ -	\$ 220,000	\$ 200,000	\$ 4,159,106	\$ 278,250

* Unspent bond proceeds related to the 2004 General Obligation Bonds were transferred from the Major and Local Street Funds to the Water and Sewer Fund to correct an error in the initial fund allocation.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 36,750	\$ 64,591	\$ 101,341	\$ 278,250	\$ 129,780	\$ 408,030
2008	49,000	63,520	112,520	311,000	124,589	435,589
2009	49,000	62,295	111,295	306,000	118,534	424,534
2010	49,000	61,021	110,021	301,000	112,103	413,103
2011	61,250	30,180	91,430	333,750	104,598	438,348
2012-2016	389,400	134,533	523,933	1,510,600	377,121	1,887,721
2017-2021	510,300	93,999	604,299	539,700	184,943	724,643
2022-2025	555,300	32,714	588,014	594,700	55,272	649,972
Total	<u>\$ 1,700,000</u>	<u>\$ 542,853</u>	<u>\$ 2,242,853</u>	<u>\$ 4,175,000</u>	<u>\$ 1,206,940</u>	<u>\$ 5,381,940</u>

Defeased Debt

During prior years, the Village defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At March 31, 2006, \$2,025,000 of bonds outstanding are considered defeased.

Note 9 - Restricted Assets

Restricted assets consist of cash and cash equivalents as follows:

	Governmental Activities				Business-type Activities
				Total	
	General Fund	Major Street	Local Street	Governmental Activities	Water and Sewer
Unspent bond proceeds	<u>\$ 164,699</u>	<u>\$ 260,755</u>	<u>\$ 203,233</u>	<u>\$ 628,687</u>	<u>\$ 94,485</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 10 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The Village participates in the Michigan Municipal League risk pool program for claims related to workers' compensation. The program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Village participates in the Michigan Municipal Risk Management Authority's State Pool program for claims relating to property loss, torts, errors and omissions, and personal injuries. The program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

For medical benefits, the Village previously purchased commercial insurance. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Effective May 1, 2005, the Village became self-funded for medical benefits up to a retention amount, at which time the Village's reinsurance coverage begins. The self-funding program is done in conjunction with the Cities of Grosse Pointe, Grosse Pointe Farms, Grosse Pointe Park, and Grosse Pointe Woods. The Village serves as the administrative agent for the program; however, each municipality is responsible for their individual claims.

The Village estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been incurred but not reported. The Village's liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected at the time the adjustments are determined. Changes in the estimated liability for the current year were as follows:

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 10 - Risk Management (Continued)

Estimated liability - Beginning of year	\$ -
Estimated claims incurred, including changes in estimates	580,712
Claim payments	<u>(580,712)</u>
Estimated liability - End of year	<u>\$ -</u>

Note 11 - Defined Benefit Pension Plan

Plan Description

The Village contributes to the General and Public Safety Retirement System, which is the administrator of a single-employer public employees' retirement system that covers essentially all general and public safety employees of the Village. The plan does not issue a separate financial report.

The system provides retirement, death, and disability benefits to plan members and their beneficiaries. At March 31, 2006, membership consisted of 30 retirees, beneficiaries, and alternate payees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 42 current active employees.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by the Village charter. All full-time general and public safety employees are eligible to participate in the system. General participants in the system are required to contribute 3 percent of the first \$4,200 of annual salary plus 5 percent of annual salary in excess of \$4,200 to the system. Public safety participants are required to contribute 6 percent of their annual salary to the system. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 11 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended March 31, 2006, the Village's annual pension cost and required contribution of \$305,767 for the plan was less than the Village's actual contribution of \$367,740. The annual required contribution was determined as part of an actuarial valuation at March 31, 2005, using the individual entry-age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.7 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

As of March 31, 2006, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$1,906,523
Reserve for retired benefit payments	7,234,640

Three-year Trend Information

	2006	2005	2004
Annual pension cost (APC)	\$ 305,767	\$ 198,111	\$ 101,976
Percentage of APC contributed	120.0%	68.7%	98.1%
Net pension obligation	\$ -	\$ 61,812	\$ 1,976

Note 12 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 29 retirees are eligible. The Village includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Village purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized in the Retired Employees' Health Care Benefit Trust Fund as the insurance premiums become due; during the year, this amounted to \$262,552.

In the current year, the plan's reserves have been funded as follows:

Reserve for postemployment health care benefits	\$1,282,843
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Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2006

Note 12 - Other Postemployment Benefits (Continued)

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rule will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Note 13 - Joint Venture

The Village is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture (the “Authority”), which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Point, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. The Village Council appoints one member to the Authority’s governing board, which then approves its budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

The Village’s interest in the net assets of the Authority totaled approximately \$14,000 at March 31, 2006 and is reported as part of the governmental activities in the statement of net assets. The Village is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Required Supplemental Information

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,763,400	\$ 4,658,873	\$ 4,658,954	\$ 81
State-shared revenue	234,000	234,770	233,539	(1,231)
Licenses and permits	66,000	40,900	40,484	(416)
Fines and forfeitures	220,000	206,000	209,544	3,544
Ambulance fees	35,000	40,000	33,107	(6,893)
Building rent	20,000	20,000	20,200	200
Interest	20,000	96,000	92,286	(3,714)
Other	130,000	135,000	176,674	41,674
Transfers in	160,000	135,000	158,257	23,257
Total revenue	5,648,400	5,566,543	5,623,045	56,502
Expenditures				
Village Council	75,000	72,825	75,808	(2,983)
Judicial	114,550	123,000	125,638	(2,638)
Village manager	451,989	475,000	490,209	(15,209)
Elections	4,150	3,579	3,579	-
Financial administration	537,385	565,000	569,033	(4,033)
Village clerk	100	100	100	-
Building and grounds	511,493	455,000	473,147	(18,147)
Public safety	2,370,991	2,335,000	2,326,138	8,862
Public works	417,365	410,000	418,861	(8,861)
Sanitation	477,759	460,000	467,725	(7,725)
Parks and recreation	470,118	550,000	564,611	(14,611)
Fringe benefits	300,000	300,000	314,224	(14,224)
Insurance	85,500	88,500	88,331	169
Total expenditures	5,816,400	5,838,004	5,917,404	(79,400)
Excess of Expenditures Over Revenue	(168,000)	(271,461)	(294,359)	(22,898)
Fund Balance - Beginning of year	950,269	950,269	950,269	-
Fund Balance - End of year	<u>\$ 782,269</u>	<u>\$ 678,808</u>	<u>\$ 655,910</u>	<u>\$ (22,898)</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Street Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 123,000	\$ 123,000	\$ 117,638	\$ (5,362)
Interest	500	8,000	11,413	3,413
Total revenue	123,500	131,000	129,051	(1,949)
Expenditures - Highways and streets	694,324	317,200	302,035	15,165
Excess of Expenditures Over Revenue	(570,824)	(186,200)	(172,984)	13,216
Fund Balance - Beginning of year	659,074	559,074	559,074	-
Fund Balance - End of year	<u>\$ 88,250</u>	<u>\$ 372,874</u>	<u>\$ 386,090</u>	<u>\$ 13,216</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Street Year Ended March 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 61,150	\$ 61,150	\$ 52,444	\$ (8,706)
Contribution from Major Roads	-	22,000	-	(22,000)
Interest	350	4,000	5,256	1,256
Total revenue	61,500	87,150	57,700	(29,450)
Expenditures - Highways and streets	889,291	533,700	546,693	(12,993)
Excess of Expenditures Over Revenue	(827,791)	(446,550)	(488,993)	(42,443)
Fund Balance - Beginning of year	761,026	661,026	661,026	-
Fund Balance - End of year	<u>\$ (66,765)</u>	<u>\$ 214,476</u>	<u>\$ 172,033</u>	<u>\$ (42,443)</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information General and Public Safety Retirement System Pension System Schedule of Funding Progress March 31, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability	Funded Ratio (Percent)	Covered Payroll	Actuarial Accrued Liability as a Percentage of Covered Payroll
March 31	(a)	(b)	(b-a)	(a/b)	(c)	
2001	\$ 17,378,211	\$ 12,564,575	\$ (4,813,636)	138.3	\$ 2,185,268	220
2002	17,453,207	13,447,907	(4,005,300)	129.8	2,240,075	179
2003	16,398,658	13,997,185	(2,401,473)	117.2	2,328,221	103
2004	15,987,977	14,685,220	(1,302,757)	108.9	2,271,915	57
2005	15,757,277	15,286,827	(470,450)	103.1	2,359,314	20
2006	16,320,244	16,024,922	(295,322)	101.8	2,491,921	12

The schedule of employer contributions is as follows:

Years Ended March 31	Annual Required Contribution	Percentage Contributed
2001	\$ -	100.0
2002	-	100.0
2003	-	100.0
2004	101,976	98.1
2005	198,111	68.7
2006	305,767	120.3

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2006, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.7% - 9.3%
*Includes inflation at the rate of	5.5%

Village of Grosse Pointe Shores, Michigan

Note to Required Supplemental Information March 31, 2006

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as an "other financing source" or "other financing use." In addition, reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures. Also, the property tax levy for debt service and the related debt service expenditure and transfer to the Water and Sewer Fund have been budgeted for in the General Fund.

The statement comparing actual to budgeted revenue and expenditures is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement of the General Fund to the operating statement:

	Revenue	Expenditures
Budget statement amount	\$ 5,623,045	\$ 5,917,404
Major and Local Street Funds expenditure		
reimbursements	(133,257)	(133,257)
Debt millage budgeted	(414,998)	-
Debt service expenditure budgeted	-	(96,612)
Operating transfers out	-	(318,386)
Operating transfers in	(25,000)	-
Total operating statement amount	<u>\$ 5,049,790</u>	<u>\$ 5,369,149</u>

Village of Grosse Pointe Shores, Michigan

Note to Required Supplemental Information March 31, 2006

Note - Budgetary Information (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Grosse Pointe Shores, Michigan incurred expenditures that were in excess of the amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The budget overruns are as follows:

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Other Supplemental Information

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2006

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Budget Stabilization	911 Service	2004 Unlimited Tax	
Assets - Due from General Fund	\$ 200,000	\$ -	\$ -	\$ 200,000
Fund Balances - Unreserved - Undesignated	\$ 200,000	\$ -	\$ -	\$ 200,000

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2006

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Budget Stabilization	911 Service	2004 Unlimited Tax	
Revenue				
Property taxes	\$ -	-	\$ 414,998	\$ 414,998
Other	-	13,453	-	13,453
Total revenue	-	13,453	414,998	428,451
Expenditures				
Public safety	-	13,453	-	13,453
Debt service	-	-	96,612	96,612
Total expenditures	-	13,453	96,612	110,065
Excess of Revenue Over Expenditures	-	-	318,386	318,386
Other Financing Uses - Transfer out	-	-	(318,386)	(318,386)
Net Change in Fund Balances	-	-	-	-
Fund Balances - Beginning of year	200,000	-	-	200,000
Fund Balances - End of year	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,000</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Trust Funds March 31, 2006

	General and Public Safety Retirement System	Retired Employees' Health Care Benefits	Total
Assets			
Cash and cash equivalents	\$ (30,956)	\$ 1,263,171	\$ 1,232,215
Investments:			
U.S. government securities	2,108,788	-	2,108,788
Common and preferred stock	10,179,758	-	10,179,758
Corporate bonds	3,127,474	-	3,127,474
Accrued interest and dividends	97,480	-	97,480
Due from other funds	18,764	-	18,764
Prepaid expenditures	-	19,672	19,672
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 15,501,308</u>	<u>\$ 1,282,843</u>	<u>\$ 16,784,151</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Trust Funds Year Ended March 31, 2006

	General and Public Safety Retirement System	Retired Employees' Health Care Benefits	Total
Additions			
Investment income:			
Interest, dividends, and net realized income on investments	\$ 642,422	\$ 58,989	\$ 701,411
Net decrease in fair value of investments	67,502	-	67,502
Less investment expenses	(155,898)	-	(155,898)
Net investment income	554,026	58,989	613,015
Contributions:			
Employer	367,740	275,000	642,740
Employee	134,890	12,465	147,355
Total contributions	502,630	287,465	790,095
Total additions	1,056,656	346,454	1,403,110
Deductions			
Pension benefit payments	760,467	-	760,467
Health care benefit payments	-	262,552	262,552
Total deductions	760,467	262,552	1,023,019
Net Increase in Net Assets Held in Trust	296,189	83,902	380,091
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	15,205,119	1,198,941	16,404,060
End of year	<u>\$ 15,501,308</u>	<u>\$ 1,282,843</u>	<u>\$ 16,784,151</u>



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May 31, 2006

To the Village Council
Village of Grosse Pointe Shores
795 Lake Shore Road
Grosse Pointe Shores, MI 48236

Dear Village Council Members:

We recently completed our audit of the financial statements of the Village of Grosse Pointe Shores for the year ended March 31, 2006. In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

Internal Control

Segregation of duties is an essential component of a sound system of internal controls. When job responsibilities are properly segregated, a system of "checks and balances" is created, thereby reducing the risk of intentional or unintentional errors and/or omissions in the accounting records. Through our audit procedures, we noted the following internal control matters that we present for your consideration as part of the Village's process of continuous improvement:

- As discussed in our letter to the Council last year, the Village's banking arrangements designate the finance officer of the Village as one of the authorized check signers on the payroll bank account. The finance officer does not sign the checks in practice; however, since the finance officer also has the ability to add new employees to the payroll system, print payroll checks, and post journal entries to the general ledger (which are not required to be reviewed by anyone else), the ability to sign the payroll checks creates the potential for an internal control weakness. We recommend that the finance officer be removed as an authorized check signer on this account to address that potential area of weakness.
- We also noted that the finance officer receives the statements for all of the Village's bank and investment accounts, reconciles the accounts to the Village's records, and makes any required adjustments to the general ledger. The reconciliations are reviewed by the Village superintendent, which provides an essential layer of control in the reconciliation process; however, these controls could be strengthened with further segregation of duties, such as having another individual receive, open, and review the bank and investment statements before they are reconciled.

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- Currently, the finance officer is responsible for preparing and posting journal entries into the general ledger software system. This accounting data is being processed with no apparent supervisory review. A supervisory review of the finance officer's work would add to the effectiveness of the controls and may detect errors in the preparation process that may otherwise go undetected.
- The Village makes use of electronic wire transfers to effect various transactions, including payroll and debt payments. Currently, these transfers can be initiated and authorized by the finance officer without prior review or approval by a second individual. Though wire transfers are not used routinely, we encourage management to consider whether the review of monthly bank reconciliations provides sufficient control over electronic disbursements, given the immediate nature of these transactions. Controls over electronic transactions should typically mirror or exceed those controls over traditional disbursements (approvals by various individuals, Council review, etc).

Other Accounting and Administrative Matters

- In today's business environment, transactions are initiated, processed, and stored electronically with greater and greater frequency. As the Village's accounting records are maintained almost entirely in computer systems, security over those records is of high importance, such as limiting access to data via passwords and physical security over data, including backup procedures. The Village's current procedures are that data systems are backed up twice a week and are kept in the possession of an employee off-site. We would encourage management to review these procedures for adequacy, ensuring that data loss would be minimized in the event of a system failure or natural disaster. The Village should consider whether backups should be done more frequently or if a more secure means of storage would be appropriate.
- The State of Michigan has provided guidance to local units of government regarding appropriate use of public funds. In the interest of stewardship, municipalities are prohibited from appropriating money for uses other than those specifically authorized by the Constitution or State Statute, regardless of the perceived worthiness of the cause. We would encourage management to review the guidance provided on the State of Michigan, Department of Treasury's website to ensure that the Village's expenditures are in compliance with state law and to discuss any questionable items with legal counsel.

Auditing Procedures Report

The Michigan Department of Treasury is in the process of updating the auditing procedures report. This report continues to be completed by your auditors and submitted annually, upon completion of the audit, to the State. In an effort to ensure fiscal responsibility and accountability, the State will be requiring auditors to address additional concerns as follows:

- Illegal or unauthorized expenditures
- Indications of defalcation, fraud, or embezzlement that were not previously communicated to the Local Audit and Finance Division (LAFD)
- Repeated management letter comments from the previous year
- Invoices paid prior to Council approval
- Untimely preparation of bank reconciliations

We encourage management to review compliance with the above items to ensure a positive report to the State for future audits.

State-shared Revenues

The continuing budgetary challenges faced by the State impact the Village through its revenue-sharing payments, which are a significant revenue source for the General Fund by itself and the governmental activities as a whole. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State's revenue structure. At this time, revenue-sharing payments for the State's fiscal year 2006 are anticipated to be just slightly below the 2005 levels (99.3622 percent of 2005 levels), and the 2007 projected budget is level with 2006.

It is important to recognize that the authority for the statutory portion of revenue sharing terminates at September 30, 2007. This portion represents approximately \$42,000 of the \$233,000 distribution received in fiscal year 2006. We have not heard any significant discussion in Lansing regarding the plans for renewal at that time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program.

Pre-funding of Retiree Health Care

As you know, the Village provides postemployment benefits for all eligible employees. The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

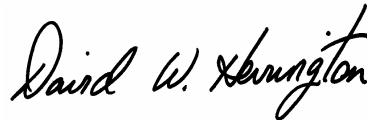
The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the Village to obtain a periodic actuarial valuation of the obligation to provide retiree health care benefits to current employees as well as those who have already retired. In addition, the Village's funding status, meaning the progress that has been made in accumulating assets to pay for this liability, will be disclosed in the financial statements. Lastly, it will be recommended that the Village make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30-year period.

The Village has already established a separate fund to account for these benefits and has started to set aside funds for this liability under the provisions of Public Act 149. The changes required under GASB 45 are not effective until 2009; however, we recommend that the Village begin evaluating the pre-funding of this liability on an actuarial basis to better anticipate the full effect of this pronouncement. We would be happy to assist the Village in adopting the provisions of GASB Statement 45.

We would like to thank you for the opportunity to serve as auditors for the Village of Grosse Pointe Shores. We would also like to express our appreciation for the courtesy and cooperation extended to our staff by Rhonda and Mike during the audit. If you have any questions regarding any of the information noted above or presented in the financial statements, please feel free to call us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive, flowing style.

David W. Herrington

A handwritten signature in black ink that reads "Jenny L. Cederstrom". The signature is written in a cursive, flowing style.

Jenny L. Cederstrom